

- Private and public sector investment expected to increase 6.5% during 2006
- BC's inflation rate lowest in Canada in January
- Retail sales slip in December, but rise 5.7% during 2005

Private & Public Investment

• **Private and public sector investment in the province is expected to increase 6.5% this year, as public sector spending continues to grow at double-digit rates.** Public sector establishments expect their spending on construction and machinery & equipment to rise 19.3% this year, after expanding more than sixteen percent in each of the past two years. Private sector investment growth, however, is forecast to slow during 2006, rising 3.4%-the lowest rate since 2002.

In the private sector, planned spending on machinery & equipment is expected to increase 1.8% this year, well below the 7.7% growth in 2005. Construction spending is forecast to rise 4.1%, also less than in 2005 (+6.8%) as the frenetic pace of new housing construction slows down from the double-digit growth posted during the last four years. Spending on new housing is forecast to rise 5.0% this year.

In the public sector, spending on construction (+20.0%) and machinery & equipment (+17.7%) is expected to increase significantly. The biggest anticipated increase (+10.7%) is in spending by local government. The provincial government plans to increase its investment 4.0% after a whopping 50.4% increase in 2005, when spending on both structures (+53.6%) and machinery & equipment (+44.0%) skyrocketed. Some of the building boom is likely related to activities getting underway in preparation for the 2010 Olympics.

Investment by the primary (-11.4%) and manufacturing (-6.6%) industries is expected to decline this year, while service sector industries pick up the slack. The biggest gains are forecast in construction (+28.8%) and communication & utilities (+25.0%).

Data Source: Statistics Canada

• **Canada-wide, investment is forecast to rise 6.1%, slightly less than in BC.** Manitoba (+14.6%) and Nova Scotia (+10.2%) are expected to lead the provinces in terms of investment spending this year. BC will be in the middle of the pack as the province's housing boom moderates. Newfoundland (-6.9%) is the only province where investment is expected to decline during 2006.

Data Source: Statistics Canada

Prices

• **British Columbia's year-over-year inflation rate continued to fall in January, dropping to 1.6%, its lowest level since June 2005.** BC was the only province where the inflation rate was less than two percent last month. Energy prices rose 9.3%, but the cost of other goods and services advanced just 1.1%. Prices for clothing & footwear continued to fall (-2.6%) as consumers benefited from lower prices following the WTO-mandated removal of tariffs on clothing imports. The cost of recreation, education & reading materials edged down 0.1%.

Energy prices played a big role in rising shelter (+2.1%) and transportation (+4.0%) costs. Fuel oil cost 21.4% and piped gas 15.0% more than in January 2005. Drivers paid 13.7% more at the pump, marking the fourteenth time in the last 16 months that British Columbians have faced double-digit increases in the cost of gas.

Consumers also had to dig deeper into their wallets to pay for food (+1.9%), especially restaurant meals (+2.4%), health & personal care products & services (+1.6%) and alcohol & tobacco products (+1.3%).

Data Source: Statistics Canada

• **Vancouver's inflation rate was just 1.4% in January, while prices increased at an average rate of 1.9% in the Victoria area.** These were the lowest year-over-year increases in the CPI

Did you know...

Nine percent of British Columbians would like to spend a European vacation thrill seeking: trekking, skiing or rafting. The national average is 10% *Data Source: Ipsos Reid Survey*

among the nation's metropolitan areas. Residents of Calgary (+4.4%) and Edmonton (+3.6%) saw prices climb the most. *Data Source: Statistics Canada*

- **Canadian prices were up 2.8% in January, with energy (+15.3%) accounting for much of the increase.** Nationally, food (+2.8%), shelter (+3.9%) and transportation (+5.4%) costs were all inflationary factors. Among the provinces, the biggest price increase was seen in Alberta, where the consumer price index was up 4.1% from a year earlier.

Data Source: Statistics Canada

The Economy

- **Sales by retailers in the province slipped back 0.6% (seasonally adjusted) in December, offsetting a similar increase in the previous month.** Retailers in many parts of the country did not fare particularly well during the Christmas season. Sales were off in six provinces, including BC and Quebec (-0.7%). Canadian sales advanced 0.3% on the strength of solid gains in Ontario (+1.1%), Alberta (+0.9%) and parts of Atlantic Canada.

Data Source: Statistics Canada

- **The number of British Columbians receiving regular employment insurance (EI) benefits fell 2.2% (seasonally adjusted) in December, to 45,680.** The number was down 0.6% nationally, with six provinces posting declines.

Data Source: Statistics Canada

Tourism

- **Traveller entries to BC from the US and overseas were up 1.9% (seasonally adjusted) in December as entries from the US picked up significantly (+2.2%).** The number of US visitors making same day trips north of the border increased 3.6%, rising for only the second time in six months. Overnight visits from the US were up 0.9%, ending a two-month long slump. Entries to BC from overseas continued to grow (+0.6%) but at a slower pace than in November. There were 2.6% more travellers coming from Asia, while European entries rose 0.7%.

Data Source: Statistics Canada & BC Stats

2005 in Review

- **Despite ending the year in a bit of a slump, retailers in the province increased their sales 5.7% during 2005.** Most retail industries posted

significant gains. Drug stores (+16.7%), clothing (+7.9%) and furniture, furnishings & electronics (+6.4%) retailers saw sales rise more than five percent. Food store sales were up (+3.2%) for the first time since 2002. High prices at the pump help boost gas station sales (+16.7%) and a relatively robust market for new cars (+4.9%) also contributed to a 4.6% sales increase for retailers of autos & automotive products. Canadian retail sales were up 6.1% last year.

Data Source: Statistics Canada

The Nation

- **A record 1.5 million Canadians travelled to nations other than the US between July and September, up 8.2% from the previous high in the third quarter of 2004.** Of the top 10 countries visited, 9 were in Europe. Travel to the Caribbean, South America and Asia eased off. Canadians took 20% fewer trips to Asia as concerns about avian flu remained an issue. Overnight travel to the US rose 9.0%.

For Canadians visiting the US, New York (1,002,000) and Washington (610,000) were the most common destinations, followed by Maine (434,000) and Michigan (427,000).

Data Source: Statistics Canada

- **Canadian railways carried their heaviest freight load so far this decade in 2005, thanks to pressing demand for primary goods from China and other Asian countries.** More than 287.2 million metric tonnes of freight were loaded, up 3.7% from 2004. *Data Source: Statistics Canada*

- **Canadian corporations earned record profits of \$217.0 billion in 2005, fuelled by the oil and gas industry.** Profits were up 12.1% from 2004, rising for the fourth year in a row. The oil and gas industry accounted for half of the overall profit gain (+13.6%) in non-financial industries during 2005. Metal mining companies also benefited from rising commodity prices that were driven by strong North American and Asian demand. However, manufacturers did not fare as well (-6.9%). In the financial services sector, profits increased 7.6%.

Data Source: Statistics Canada

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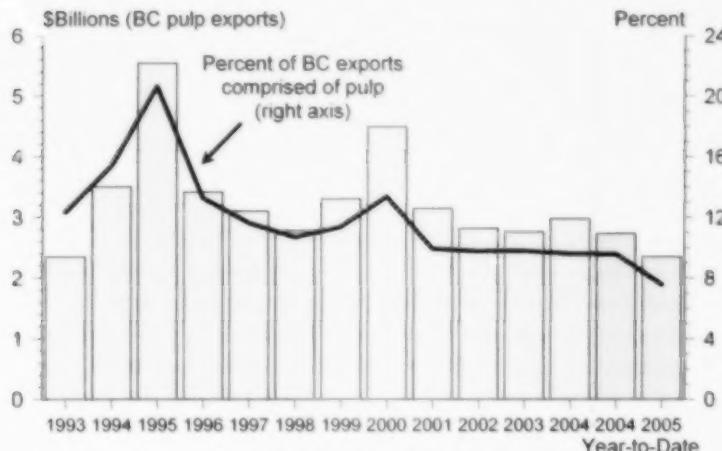
Contact: Dan Schrier (250) 387-0376
Originally published in *Exports*. Issue 05-11. Annual Subscription \$60 +GST

Pulp Friction: Challenging Times for BC's Pulp Industry

The pulp industry in British Columbia has been struggling in recent years due to a combination of low worldwide prices resulting from a glut of supply and falling demand, lower-cost competitors in emerging economies, high energy prices that drive up costs for pulp producers and a high dollar that has had a negative impact on profits. The challenging times for the pulp industry have been reflected in the falling value and declining prominence of pulp exports from the province.

The pulp industry has seen some hard times

Pulp is comprising a diminishing share of BC's total exports



The share of total BC exports comprised of pulp has slipped from as high as 21% in 1995 to less than 8% in 2005

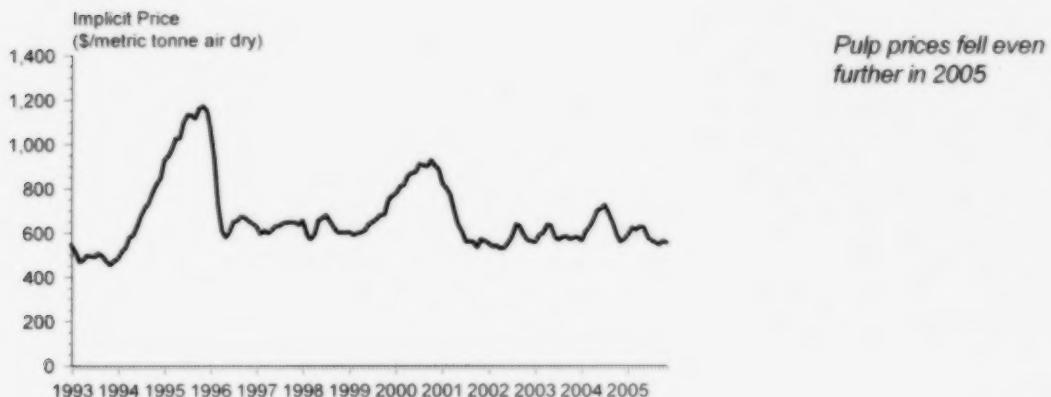
The percentage of total BC exports comprised of pulp has slipped from almost 19% in 1990 to just under 10% in 2004 and data for the first 11 months of 2005 indicate that this share has fallen even further, to less than 8%. The declining export values are mostly due to slumping prices as production levels have been fairly steady and the quantity of pulp shipped has not suffered a significant drop.

Excess world supply has been a problem in the pulp sector for years and pulp prices have been depressed as a result. Prices received for pulp exported from BC have undergone extreme fluctuations in the last decade, soaring to highs of over \$1,000 per metric tonne, on average, in 1995 and approximately \$865 in 2000, and sliding below \$600 per metric tonne in other years, including 2005.¹ A significant portion

¹ These figures are implicit prices calculated by taking the total value of pulp shipped and dividing by the quantity shipped, in metric tonnes (air dry).

of the price decline in 2005 was due to the jump in the value of the Canadian dollar relative to its American counterpart; however, pulp lost ground even when priced in US dollars.

Prices attained for BC pulp exports have remained at historically low levels in the last few years

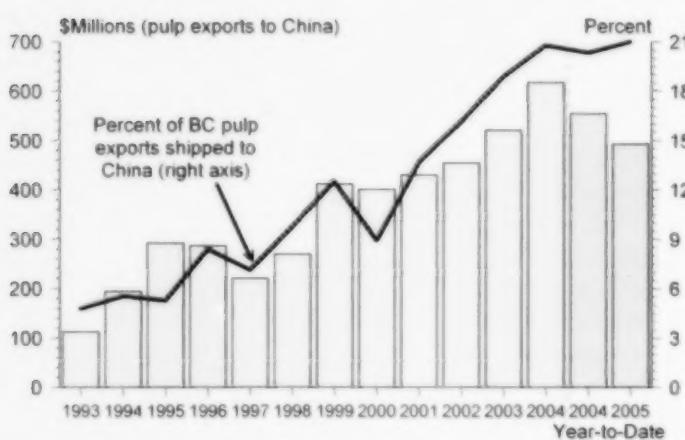


The impact that low prices and increased competition has had on the pulp industry in BC can be seen in the problems experienced at BC pulp mills. A few years ago it was the mill in Prince Rupert that closed its doors and the Port Alice mill shut down in October 2004. The recent announcement of the closure of the Western Forest Products pulp mill in Woodfibre comes as another blow for an already beleaguered industry. This latest shutdown takes some of the shine off of the news that the Port Alice mill is set to re-open in March.

The future of BC's pulp industry is not without hope. Similar to how BC's mining sector was revitalized by China's thirst for raw materials to feed its growing production needs, demand from China may bring the pulp industry in BC back on track. However, while China's contribution to the mining sector was mainly in the form of higher prices for metals as a result of surging demand, its impact on the pulp industry has been more direct. China has substantially increased the amount of pulp it imports from British Columbia over the last several years. The value of pulp exported from BC to China has more than doubled in the last decade and China's share of BC's total pulp exports has expanded from around 5% in 1995 to over 20% in 2004. As a result, China now ranks second as a destination for BC pulp exports with approximately 21% of all pulp exported from BC shipped to China in 2004. Only the United States, which received 22% of the total value of BC pulp exports, ranked ahead of China.

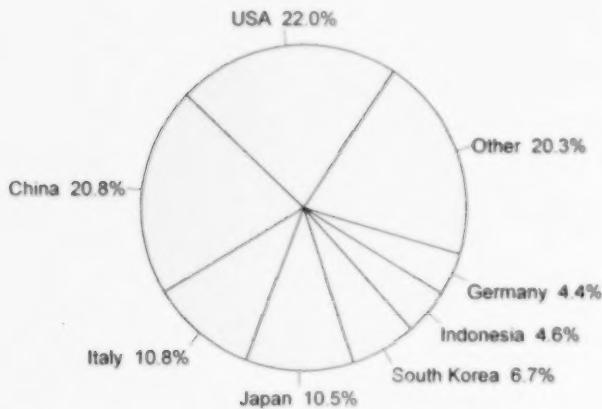
China may be the answer for BC's pulp industry

Exports of pulp from BC to China have increased substantially over the last decade



China's share of total BC pulp exports has increased from 5% to 20% in the last decade

China was second only to the United States as a destination for pulp exported from BC in 2004



China ranked second only to the United States in 2004 as a market for BC pulp exports

The outlook is for demand from China to continue to increase over the next five years. According to one projection, the demand for bleached softwood kraft pulp—which comprises the large majority of BC's pulp exports—will rise from 2.8 million tonnes in 2003 to 4.3 million tonnes by 2010, at which point over 70% of China's demand will be supplied by imports.² If British Columbia can capture a portion of that market, it could be instrumental in turning the

Demand for pulp in China should continue to grow over the next five years

² He, D. and Barr, C. (2004) "China's pulp and paper sector: an analysis of supply-demand and medium term projections," *International Forestry Review*, Vol. 6(3-4), pp. 254-266.

pulp industry in this province around. However, one of the major challenges facing BC producers is that global pulp capacity is expected to grow at a pace even more rapid than the rise in demand, which could result in a further reduction in pulp prices.³

The seemingly insatiable demand from China for raw materials may be a light at the end of the tunnel for the BC pulp sector, but global oversupply of the commodity could continue to plague the industry and even with the rise in demand, prices could remain at current low levels, or perhaps fall even further. The challenges faced by the industry today may still be a problem for the pulp industry over the next several years.

³ Ibid.

 fax transmission information service from **BC STATS**

 Email transmission information service from **BC STATS**

 also on the Internet at www.bcstats.gov.bc.ca

BC at a glance . . .

| POPULATION (thousands) | | Oct 1/05 | % change on one year ago |
|---|---------------------|-----------|--------------------------|
| BC | 4,271.2 | 1.3 | |
| Canada | 32,378.2 | 1.0 | |
| GDP and INCOME | | 2004 | % change on one year ago |
| (BC - at market prices) | | | |
| Gross Domestic Product (GDP) (\$ millions) | 157,241 | 7.7 | |
| GDP (\$ 1997 millions) | 139,205 | 4.0 | |
| GDP (\$ 1997 per Capita) | 33,129 | 2.8 | |
| Personal Disposable Income (\$ 1997 per Capita) | 20,182 | 1.4 | |
| TRADE (\$ millions, seasonally adjusted) | | Jan '06 | 12-month avg % change |
| Manufacturing Shipments - Dec | 3,760 | | |
| Merchandise Exports - Dec | 3,197 | 3.1 | |
| Retail Sales - Dec | 4,229 | 5.9 | |
| | | | |
| CONSUMER PRICE INDEX | | Jan '06 | % change on prev. month |
| (all items - 1992=100) | | | |
| BC | 125.6 | 1.9 | |
| Canada | 128.8 | 2.3 | |
| LABOUR FORCE (thousands) | | Jan '06 | % change on prev. month |
| (seasonally adjusted) | | | |
| Labour Force - BC | 2,285 | 0.1 | |
| Employed - BC | 2,167 | 0.0 | |
| Unemployed - BC | 118 | 1.6 | |
| | | Dec '05 | |
| Unemployment Rate - BC (percent) | 5.1 | | |
| Unemployment Rate - Canada (percent) | 6.6 | | 6.5 |
| INTEREST RATES (percent) | | Feb 22/06 | Feb 23/05 |
| Prime Business Rate | 5.25 | 4.25 | |
| Conventional Mortgages - 1 year | 5.85 | 4.80 | |
| - 5 year | 6.45 | 6.05 | |
| US/CANADA EXCHANGE RATE | | Feb 22/06 | Feb 23/05 |
| (avg noon spot rate) Cdn \$ | 1.1482 | 1.2383 | |
| US \$ (reciprocal of the closing rate) | 0.8705 | 0.8080 | |
| AVERAGE WEEKLY WAGE RATE | | Jan '06 | % change on one year ago |
| (industrial aggregate - dollars) | | | |
| BC | 720.31 | 1.7 | |
| Canada | 718.57 | 3.5 | |
| SOURCES: | | | |
| Population, Gross Domestic Product, Trade, Prices, Labour Force, Wage Rate | } Statistics Canada | | |
| Interest Rates, Exchange Rates: Bank of Canada Weekly Financial Statistics | | | |
| For latest Weekly Financial Statistics see www.bankofcanada.ca | | | |

Economic Accounts (GDP)

Statistics Canada now provides free access to a broad range of national and provincial economic accounts (Gross Domestic Product) data.

The **System of National Economic Accounts** module provides an up-to-date portrait of national and provincial economies and their structure, based on an integrated, internationally recognized set of economic accounting concepts.

Labour force statistics

<http://www.statcan.ca/english/nea-cen/index.htm>

LFS revisions 2005

On Wednesday, January 25th, Statistics Canada released revisions to the labour force survey data. We are working to update all the LFS files on our site this cannot be completed until after Statistics Canada publishes the annual CD product.

Labour force statistics

<http://www.bcstats.gov.bc.ca/data/lss/labour.asp>

Consumer Price Index 2005

With the release of the December 2005 monthly consumer price index came an update of the annual series. BC Stats publishes several documents featuring long time series of the highest level Canada, British Columbia, Vancouver and Victoria data.

<http://www.bcstats.gov.bc.ca/> [continued]
[data/bus_stat/econ_stat.asp](http://www.bcstats.gov.bc.ca/data/bus_stat/econ_stat.asp)

Released this week by BC STATS

- Consumer Price Index, January 2006
- Business Indicators, February 2006
- Current Statistics, February 2006

Next week

- No subscription releases

